

**BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS & QUESTIONED COSTS
CITY OF HAWARDEN, IOWA
FOR THE
FISCAL YEAR ENDED JUNE 30, 2006**

**Prepared by
Office of the City Clerk
Jason Metten, City Administrator/City Clerk
and Sharole Rens, Deputy City Clerk/Director of Finance**

CITY OF HAWARDEN
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2006
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CITY OF HAWARDEN, IOWA
Directory of City Officials
as of June 30, 2006

Elected City Officers

Ricard Porter - Mayor

Council Members:

Mike Cauwels (2007)
Robert Borchers (2007)
Patty Anderson (2009)
Kody Hellen (2009)
George Jacobs (2009)

Hospital Trustees:

Glea Hamik
Matt Hummel
Pam Harvey
Mary Jacobs
Rick Reinking

Appointed City Officers

Jason Metten – City Administrator/City Clerk/ Telecommunications Director
Chris Myers – Economic Development Director
Sharole Rens – Director of Finance/Deputy City Clerk
Jim Pickner – City Attorney
Tom Kane – Director of Public Works
Mike DeBruin – Chief of Police
Jami Dekkers – Activity Director
Valerie Haverhals – Librarian
Jerry Wilson, EMS Director

Appointed Boards and Commissions

Library Board of Trustees:

Tony Lauters -Chairman
Teri Kallsen – Vice-Chairman
Lois Jean Dawson
Kay Scroggs
Mark Weyer

Planning and Zoning Commission:

Lloyd Younkin
Lloyd Strong, Jr.
Harold Pry
Mike Wiggins
Virginia Moothart
Carol Frerichs
Jerry Jensen

Board of Zoning Adjustment:

William Salker - Chairman
Julie Miller
Jack Andela
Arvin Kitchenmaster
Arvin Kitchenmaster

Park Board:

John Blankenship
Duane Schiefen
Jerrod Lynott
Jim Kinney
Elaine Kane



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INDEPENDENT AUDITORS' REPORT

The Honorable Members of the City Council
City of Hawarden, Iowa:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the CITY OF HAWARDEN, IOWA (the "City") as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Hawarden Municipal Hospital, (a discretely presented component unit), which statements reflect total assets of \$3,042,081 and total operating revenues of \$4,381,497 for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion insofar as it relates to the amounts included for the Hawarden Municipal Hospital, is based solely on the report of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the U.S. Comptroller General. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hawarden, Iowa as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable thereof, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 25, 2006, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 13 and 54 through 57, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hawarden, Iowa's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Williams & Company, P.C.
Certified Public Accountants

August 25, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

As management of the City of Hawarden, we offer readers of the City of Hawarden's financial statements this narrative overview and analysis of the financial activities of the City of Hawarden for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information contained within the City's financial statements that follow this report, as well as the separately issued financial statements of The Hawarden Community Hospital, a discretely presented component unit of the City.

Financial Highlights

- The assets of the City of Hawarden exceeded liabilities at June 30, 2006 by \$14,219,721. Of this amount, \$4,571,700 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net assets increased \$140,234 during the year. Of this amount, the assets of our Governmental Activities increased \$461,075 and the assets of our Business Activities decreased \$320,841
- The City's long-term debt (notes and bonds) decreased \$3,075,000 due to the scheduled debt service payments, the cross-over refunding and no new debt issuance. Outstanding General Obligation debt totals \$1,125,000. Outstanding Revenue Bond Debt totals \$2,945,000. Of the \$5,915,000 of Electric Revenue bonds outstanding at the end of FY 2005, \$2,945,000 consisted of cross-over refunding bonds and \$2,970,000 of the original issue of revenue bonds, which were retired in FY 2006.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Hawarden's basic financial statements which consist of a series of financial statements comprised of three components: 1) The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. 2) Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside the government. 3) An additional part of the basic financial statements are the Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements.

REPORTING THE CITY AS WHOLE

The Statement of Net Assets and the Statement of Activities

The government-wide statements report information about the City as a whole using accounting methods similar to those used by the private sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenue and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

These statements include all assets and liabilities using the accrual basis of accounting, which is very similar to the method of accounting used by the private-sector companies. These two statements report the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. Additional factors, such as changes in the City's property tax base and sales tax collections and condition of the City's infrastructure, are also important in making this determination.

In the Statement of Net Assets and the Statement of Activities, we have divided the City into two kinds of activities:

- **Governmental Activities** – Most of the City's basic services are reported here, such as Police, Fire, Public Works, Parks, and Recreation departments, and general administration. Property Taxes and state and federal grants finance most of these activities.
- **Business Type Activities** – The City charges fees to customers to cover the cost of these services. Included here are the City Electric, Water, Sewer, Natural Gas, City Telephone/Cell Phone, and Cable/High Speed Internet.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by State law or by bond requirements. The City Council also established funds to control and manage money for particular purposes (such as construction projects) and to show that it is properly using certain revenues (such as Sales Tax Revenues). The City has the following types of funds:

- **Governmental Funds** – Most of the City's basic services are included in Governmental Funds, which focus on how money moves into and out of these

funds and the balances left at year-end are available for spending. These funds are reported using a modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund Statements provide a detailed short-term view of the City's general governmental operations and basic services it provides. Governmental Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs. We describe the relationship between Governmental Activities (reported in the Statement of Net Assets and the Statement of Activities) and the Governmental Funds in a reconciliation following each Governmental Fund financial statement.

- **Proprietary Funds** – When the City charges customers for the service it provides, these services are generally reported in Proprietary Funds. Proprietary Funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the Proprietary Funds report and the Business Type Activities report in the government-wide statements is the detail and additional information, such as cash flows, provided in the Proprietary Funds report.

THE CITY AS TRUSTEE

Reporting the City's Fiduciary Responsibilities

Fiduciary Funds are used to account for resources held for the benefit of parties outside the City government. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found behind the Fiduciary Funds statements.

THE CITY AS A WHOLE

As stated earlier, net assets may serve over time as a useful indicator of a government's financial position. The largest part of the City's net assets reflects its investment in capital assets (land, buildings and improvements, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

For the year ended June 30, 2006, net assets changed as follows:

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and Other Assets	\$ 2,607,982	\$ 2,611,615	\$ 4,892,596	\$ 7,677,596	\$ 7,500,578	\$ 10,289,211
Capital Assets	8,930,037	8,571,761	3,522,121	3,852,009	12,452,158	12,423,770
Total Assets	11,538,019	11,183,376	8,414,717	11,529,605	19,952,736	22,712,981
Long-term Liabilities Outstanding	1,311,749	1,419,462	2,719,516	2,970,000	4,031,265	4,389,462
Other Liabilities	1,047,753	996,472	653,997	3,247,560	1,701,750	4,244,032
Total Liabilities	2,359,502	2,415,934	3,373,513	6,217,560	5,733,015	8,633,494
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	7,805,037	7,341,761	577,121	882,009	8,382,158	8,223,770
Restricted	196,877	195,851	1,068,986	1,147,023	1,238,863	1,342,874
Unrestricted	1,176,603	1,229,830	3,395,097	3,283,013	4,571,700	4,512,843
Total Net Assets	\$ 9,178,517	\$ 8,767,442	\$ 5,041,204	\$ 5,312,045	\$ 14,219,721	\$ 14,079,487

The government's net assets increased by \$140,234 during the current fiscal year. Reasons for the increase of the government's net assets are higher interest rates as well as an 8% increase in property valuation by Sioux County. This summary reflects an increase of total net assets by 4.7% for the Governmental Activities and a decrease of 5.1% in the Business-Type Activities. The decrease in Business-Type Activity assets can once again be attributed to rising costs of wholesale electric and gas.

Total Revenue and Expenses and changes in Net Assets reported in Fiscal 2006 as compared to Fiscal 2005 are shown in the chart below.

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues:						
Charges for Services	\$ 341,380	\$ 289,594	\$ 5,248,172	\$ 5,589,552	\$ 5,589,552	\$ 5,518,407
Operating Grants & Contributions	27,967	29,295	-	-	27,967	29,295
Capital Grants & Contributions	539,106	19,414	-	-	539,106	19,414
General Revenues:						
Property Taxes	836,923	775,782	-	-	836,923	775,782
Other Taxes	223,450	193,270	-	-	223,450	193,270
Other	350,045	374,665	282,978	48,914	633,023	423,579
Total Revenues	\$2,318,871	\$ 1,682,020	\$ 5,531,150	\$ 5,150,368	\$ 7,850,021	\$ 6,959,747

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Expenses:						
General Government	\$ 115,824	\$ 133,693	-	-	\$ 115,824	\$ 133,693
Public Safety	497,644	462,040	-	-	497,644	462,040
Public Works	441,695	378,171	-	-	441,695	378,171
Health & Welfare	224,745	194,565	-	-	224,745	194,565
Culture & Recreation	406,069	425,992	-	-	406,069	425,092
Community and Economic Development	468,329	208,975	-	-	468,329	208,975
Capital Projects	-	-	-	-	-	-
Debt Service	90,490	71,586	-	-	90,490	71,586
Water Utility	-	-	\$ 262,662	\$ 260,770	262,662	260,770
Waste Water Utility	-	-	306,379	277,040	306,379	277,040
Electric Utility	-	-	2,127,674	2,168,822	2,127,674	2,168,822
Gas Utility	-	-	1,418,493	1,345,433	1,418,493	1,345,433
Solid Waste Utility	-	-	155,705	153,488	155,705	153,488
Telephone Utility	-	-	860,773	909,146	860,773	909,146
Cable/Internet Utility	-	-	333,305	352,174	333,305	352,174
Total Expenses	2,244,796	1,875,022	5,464,991	5,466,873	7,709,787	7,341,895
Increase (Decrease) in Net Assets Before Transfers	74,075	(193,002)	66,159	(189,146)	140,234	(382,148)
Transfers	387,000	439,452	(387,000)	(439,452)	-	-
Increase (Decrease) in Net Assets	461,075	246,450	(320,841)	(628,598)	140,234	(382,148)
Net Assets July 1	8,717,442	8,520,992	5,362,045	5,940,643	14,461,635	14,461,635
Net Assets June 30	\$ 9,178,517	\$ 8,767,442	\$ 5,041,204	\$ 5,312,045	\$ 14,219,721	\$ 14,079,487

Program revenues totaled \$6,156,625 for fiscal year 2006 compared to \$5,567,116 for fiscal year 2005. Governmental Activities provided \$908,453 and Business-Type Activities provided \$5,248,172. Revenue collected for Charges for Services during fiscal year 2006 was \$5,589,552, accounting for 90.7% of the total program revenues.

General Revenues for fiscal year 2006 totaled \$1,693,396. Governmental Activities provided \$1,410,418 and Business-Type Activities provided \$282,978. Property Tax Revenues for fiscal year 2006 totaled \$836,923, accounting for 49.4% of General Revenues.

Expenditures for fiscal year 2006 totaled \$7,709,787. Expenditures for General Governmental Activities totaled \$2,244,796, accounting for 29.1% of total expenditures. Business-Type Activity expenditures totaled \$5,464,991, for 70.9% of the total.

The following table shows the activities included within each program level:

<u>Program Level</u>	<u>Activity</u>
Public Safety	Individual & Community Protection, Physical Health
Public Works	Roadway Construction, Airport Operations, Street Lighting, Transportation Services
Culture and Recreation	Education & Culture, Leisure Time Opportunities

<u>Program Level</u>	<u>Activity</u>
Community and Economic Development.....	Economic Development, Community Beautification, Planning and Zoning
General Government.....	Administration, Support Services
Debt Service.....	Payment of Interest
Capital Projects	Construction of Capital Facilities
Water System.....	Operation of Water Treatment Plant/Supply Distribution System
Sewer System	Operation of the Waste Water Treatment Plant/Collection System
Electric System	Operation of Electric Distribution System
Natural Gas Utility	Operation of Natural Gas Distribution System
Solid Waste Utility	Oversight of Solid Waste Contract/Closed Landfill
Telephone Utility	Operation of Telephone Communication System
Cable/Internet Utility	Operation of Cable/Internet System

Governmental Activities

To aid in the understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses and Changes in Fund Balance. Please note that the expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expense) Revenue calculation. This format highlights the respective financial burden that each of the functions place on the taxpayers. For example, for Public Safety, the City spent \$497,644 and received \$201,914 in revenue, thus leaving a cost to the taxpayer of \$295,730 to be funded by various methods. The format also identifies how much each function draws from general revenues or is self-financing through fees or grants. Some of the individual line item revenues reported for each function are:

Public Safety	Fines, Fees
Culture and Recreation	Fees, Donations, Grants
General Government	Licenses, Permits

The total cost of governmental activities this year was \$2,244,796. Of these costs, \$341,380 was paid by those who directly benefited from the programs. Costs paid by other governmental and organizations that subsidized certain programs with grants and contributions were \$567,073, leaving a Net Expense of \$1,336,343 for Governmental Activities. These expenses were covered with tax revenues, interest and other general revenues. The Statement of Activities in the financial statements provides further detail.

Total resources available during the year to finance governmental operations were \$11,423,313, consisting of Net Assets at July 1, 2005 of \$8,717,442, Program Revenues of \$908,453 and General Revenues of \$1,797,418. Total Governmental Activities during the year expended \$2,244,796; thus, Net Assets were increased by \$461,075, to \$9,178,517.

Business-Type Activities

Business-Type Activities decreased the City's net assets by \$320,841.

The cost of all Proprietary Activities this year was \$5,464,991. As shown in the Statement of Activities, the amounts paid by users of the systems was \$5,248,172, resulting in total Net Expense for Business-Type Activities of \$216,819.

Total resources available during the year to finance Proprietary Fund activities were \$10,506,195, consisting of Net Assets at July 1, 2005 of \$5,362,045, Program Revenues of \$5,248,172 and General Revenues and transfers of \$(104,022). Total Proprietary Fund Activities during the year expended \$5,464,991; thus Net Assets were decreased by \$320,841 to \$5,041,204.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. Unreserved fund balance may serve as a useful measure of the government's net resources available for spending at the end of a fiscal year. The City's Governmental Funds reported combined ending fund balances of \$795,655. The combined Governmental Funds balance decreased \$80,039 from the prior year. This decrease would be accounted for primarily by completion of the Heart of Hawarden Community Improvement Project.

The General Fund is the primary operating fund of the City. During the year, expenditures were less than revenues in the General fund by \$75,334. This amount is higher than 2005 when expenditures were less than revenue in the General fund by \$42,318. The TIF, Capital Projects Fund and Debt Service Funds saw very minimal changes during the year maintaining a fund balance consistent with recent years. In FY 2005 the Capital Projects Fund accumulated the funds necessary to complete the projects and in FY 2006 the projects were completed and the funds expended.

Budgetary Highlights

The following table shows the budget variances by program expenditure structure:

	Amended Budget	Actual Expenditures	Variance
Public Safety	\$ 496,632	\$ 485,268	\$ 11,364
Public Works	292,550	287,849	4,701
Culture and Recreation	398,550	368,866	29,684
Community and Economic Development	847,500	445,763	401,737
General Government	417,500	109,653	307,847
Health and Social Services	217,000	223,450	(6,450)
Debt Service	260,722	186,960	73,762
Capital Projects	644,000	546,373	97,627
Business Type Activities	10,125,970	10,006,907	119,063
Total Expenditures	\$ 13,700,424	\$ 12,661,089	\$ 1,039,335

Below is a brief recap of budget activity for the year:

- The total original revenue budget of \$13,187,541 was decreased to \$12,514,075 (a decrease of \$673,466). This decrease can be attributed to a \$1,268,780 shortfall in utility charges for services caused by a decrease in natural gas sales due to a mild winter as well as a decrease in water revenue caused by drought-related watering restrictions.
- Intergovernmental revenue exceeded budget figures by \$66,073 due to Sioux County's participation in the purchase of a new ambulance.
- Rate of Interest on Investments exceeded budget figures by \$252,983 due to the City's policy annually requesting bids for banking services as well as an increase within the market.
- The total original expenditure budget of \$12,661,089 was increased to \$13,700,424 (an increase of \$1,712,801).
- The above amendments to budgets were related to appropriation for capital improvements and debt refinancing. Expenditures fell below the revised budget projections by \$1,039,335. This is primarily due to over budgeting in the General Government function for administration expense corresponding to the utility functions, which was paid by the various utilities. The other large contributing factors were in the Community and Economic Development function where nearly \$200,000 of housing rehabilitation expenditures budgeted in FY 06 were not completed until FY 07 as well as several other smaller projects which were either not started and/or completed by year end. The over expenditure in health and social services was due to larger than expected Local Option Sales Tax receipts, all of which is remitted to the City's hospital.

Capital Assets

The City's investment in capital assets, including land, buildings and improvements, equipment, streets, and other infrastructure represents the value of the resources

utilized to provide services to our citizens. The investment in capital assets as of June 30, 2006, was \$8,382,158 (net of accumulated depreciation and outstanding financings) compared to \$8,223,770 as of June 30, 2005. The increase would be accounted for by the completion of several capital projects within the Governmental Activities. See Note 4 to the financial statements for more information on the City's capital assets.

DEBT ADMINISTRATION

At year-end, the City had \$4,070,000 of debt outstanding. Reduction of outstanding debt can be attributed to timely payment of required debt service as well as the June 1, 2006 crossover date of \$2.945 million of Electric Revenue Refunding Notes for advance refunding of the Electric Revenue Notes, Series 1997. Advance refunding is a financing technique that allows an issuer to obtain the benefit of lower interest rates when the outstanding bonds are not currently callable. The proceeds from the sale of the refunding bonds are used to purchase taxable government securities, which are deposited in an escrow account. The escrow account is structured so that the interest earned on the securities are sufficient to pay all interest on the newly issued bonds as well as the principal, interest, and call premium, if any, on the outstanding bonds at the call date. The revenue stream originally pledged to secure the securities being refunded continues to be used to pay debt service on the refunded securities until they mature or are called. At the call date, the pledged revenues pay debt service on the refunding securities. Other Debt administration is on track with over 75% of all City debt repaid within the next 10 years. This rapid repayment, when combined with the use of TIF revenue has allowed the City to maintain our good rating. This reflects well on our community.

The City continues to operate well under State debt capacity limitations. The State limits the amount of General Obligation Debt Outstanding to 5% of the assessed value of all taxable property in the community. Thus, our debt capacity is \$3,910,020. With outstanding General Obligation Debt applicable to this limit of \$1,125,000, we are utilizing 29% of this limit. More detailed information on debt administration is provided in Note 5 of the financial statements.

ECONOMIC FACTORS

The City of Hawarden worked hard in FY 2005-2006 to maintain a progressive approach to growth and community development. During the year work proceeded on a new building to house the electric department switch gear, new city signage was installed and planters were added to Ames park. Work continued on Heart of Hawarden projects such as the community pavilion, over a mile of multi-purpose trail and many others. The projects were made possible by a 2004 Vision Iowa Community and Tourism grant. Projects began last fiscal year and are on schedule to be completed by August 2006.

Economically, the City works hard to attract new businesses and industry, while maintaining the quality of life residents have come to expect and enjoy. The former Sioux Empire Community College classroom, a large facility that had been vacant in recent years, will be the new home of V.I.P. International's call center and customer service facility. The firm has committed to providing 39 jobs within the next three years.

In business and industry recruitment, the City of Hawarden made a large commitment to growing its business base as well as retaining those firms that have already chosen Hawarden as their home by consolidating the position of Telecommunications Director with the City Administrator and reassigning current staff to the newly created position of Development Director. The Development Director position will allow the City of Hawarden to devote full time attention to the business of business recruitment and retention. In addition, the finishing touches were put on a comprehensive marketing campaign to promote Hawarden in a professional light as well as get the community's name out to decision-makers around the world. Fiscal year 2007 will see a new development website, a direct mail campaign, new signage in front of available buildings as well as a five-minute promotional video.

Hawarden as a community made great strides this year in recruiting medical professionals to the community. City and HAPP representatives worked jointly to recruit and secure a commitment from a managed practice to place a dentist as well as build a new facility. This new building will effectively allow the City to accomplish another long-term goal in filling an open space in our downtown that had been caused by a 2003 fire. On the same note, the Hawarden Community Hospital has spent a great deal of energy to recruit a new doctor. Through the help of a search firm, staff and community members, the hospital and clinic interviewed several candidates and secured the services of Dr. Mariola Czapiewska.

Beautification projects continue to be a priority for the community. The City was awarded a \$300,000 Housing Rehabilitation Grant from IDED's Iowa Housing Fund in Fiscal Year 2005 and has seen many rehabilitation projects through to completion this year as well. Through this funding, at least 10 homes of low-moderate income families will be rehabilitated by the end of calendar 2006, improving both their quality of life and the appearance of the homes. The City of Hawarden also increased their beautification efforts through enforcement of its Property Maintenance Code. In addition to dozens of successful requests to remove nuisance violations, three structures that met the statutory definition of "Unsafe" were demolished and two more will be removed before the end of the calendar year in 2006.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jason Metten or Sharole Rens at 712-551-2565.

CITY OF HAWARDEN, IOWA
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Primary Government			Component Unit
	Governmental	Business-Type	Total	Hawarden Community Hospital
	Activities	Activities		
ASSETS				
Cash and Cash Equivalents	\$ 1,003,730	\$ 325,470	\$ 1,329,200	\$ 501,976
Investments	495,934	-	495,934	-
Receivables (Net, where applicable, of allowance for uncollectibles)				
Accounts	83,032	222,510	305,542	920,214
Taxes	18,749	-	18,749	-
Subsequent Year Taxes	892,777	-	892,777	-
Accrued Interest	4,941	24,535	29,476	-
Other	-	-	-	106,117
Estimated Unbilled Usage	-	168,893	168,893	-
Special Assessments	3,857	-	3,857	-
Pledges Receivable	35,000	-	35,000	-
Notes Receivable	158,621	-	158,621	-
Internal Balances	241,175	(241,175)	-	-
Advances to Other Funds	(466,644)	466,644	-	-
Due from Other Governmental Agencies	78,198	-	78,198	-
Inventories	-	388,259	388,259	54,997
Prepaid Assets	45,681	41,555	87,236	52,030
Investment in Joint Venture	-	902,654	902,654	-
Restricted Assets:				
Cash and Cash Equivalents- Council Restricted Plant Replacement	-	709,734	709,734	167,939
Cash and Cash Equivalents- Donor Restricted	-	-	-	204,706
Cash and Cash Equivalents - Bond Reserve	-	31,277	31,277	-
Investments- Bond Reserve	-	393,965	393,965	-
Investments - Council Restricted Plant Replacement	-	1,380,000	1,380,000	-
Customer Deposits	-	38,921	38,921	-
Bond Issue Costs	12,931	39,354	52,285	-
Land	473,625	56,094	529,719	7,000
Construction in Progress	317,986	-	317,986	85,272
Infrastructure, Property and Equipment, Net of Accumulated Depreciation (Note 4)	8,138,426	3,466,027	11,604,453	941,830
Total Assets	11,538,019	8,414,717	19,952,736	3,042,081
LIABILITIES				
Accounts Payable	119,165	296,840	416,005	715,781
Accrued Wages	14,887	9,439	24,326	190,648
Accrued Expenses	528	6,435	6,963	45,900
Due to Other Governments	-	37,332	37,332	-
Accrued Postclosure Costs	-	6,120	6,120	-
Deferred Revenue - Subsequent Year Taxes	892,777	-	892,777	-
Accrued Interest Payable	20,396	-	20,396	-
Payables from Restricted Assets:				
Customer Deposits	-	38,921	38,921	-
Accrued Revenue Bond Interest	-	8,910	8,910	-
Revenue Bonds Payable	-	250,000	250,000	-
Long-Term Liabilities:				
Due within one year:				
General Obligation Bonds	110,000	-	110,000	-
Notes Payable	6,178	-	6,178	15,187
Capital Lease	-	-	-	10,091
Compensated Absences	2,813	2,453	5,266	-
Due in more than one year:				
Revenue Bonds Payable	-	2,695,000	2,695,000	-
General Obligation Bonds	1,015,000	-	1,015,000	-
Notes Payable	152,443	-	152,443	6,915
Compensated Absences and Benefits, Long-Term	25,315	22,063	47,378	-
Total Liabilities	2,359,502	3,373,513	5,733,015	984,522
NET ASSETS				
Invested in Capital Assets,				
Net of Related Debt	7,805,037	577,121	8,382,158	1,001,909
Restricted for:				
Debt Service	31,888	-	31,888	-
Revenue Bonds	-	166,332	166,332	-
Investment in Joint Venture	-	902,654	902,654	-
Endowments:				
Expendable	34,055	-	34,055	144,529
Nonexpendable	130,934	-	130,934	96,123
Unrestricted	1,176,603	3,395,097	4,571,700	814,998
Total Net Assets	\$ 9,178,517	\$ 5,041,204	\$ 14,219,721	\$ 2,057,559

CITY OF HAWARDEN, IOWA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Public Safety	\$ 497,644	\$ 201,914	\$ -	\$ -
Public Works	441,695	27,432	-	18,689
Health and Social Services	224,745	-	-	-
Culture and Recreation	406,069	52,354	27,942	399,047
Community and Economic Development	468,329	-	-	121,370
General Government	115,824	59,680	25	-
Debt Service	90,490	-	-	-
Total governmental activities	<u>2,244,796</u>	<u>341,380</u>	<u>27,967</u>	<u>539,106</u>
Business-Type Activities:				
Water Utility	262,662	260,393		
WasteWater Treatment Utility	306,379	223,455		
Electric Utility	2,127,674	1,868,954		
Gas Utility	1,418,493	1,514,500		
Solid Waste Utility	155,705	160,756		
Telephone Utility	860,773	879,258		
Cable/Internet Utility	333,305	340,856		
Total Business-Type Activities:	<u>5,464,991</u>	<u>5,248,172</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 7,709,787</u>	<u>\$ 5,589,552</u>	<u>\$ 27,967</u>	<u>\$ 539,106</u>
Component Unit:				
Hawarden Community Hospital	<u>\$ 4,390,312</u>	<u>\$ 4,381,497</u>	<u>\$ 26,159</u>	<u>\$ 34,403</u>

General Revenues:
Property taxes
Local Option Sales Tax
Transfer of LOST Funds From City
Interest
General Intergovernmental Revenues
Sale of Uncapitalized Assets
Miscellaneous
Interfund Transfers
Total general revenues and transfers
Change in net assets
Net assets - beginning
Prior Period Adjustment
Net assets - beginning, as Restated
Net assets - ending

Net (Expense) Revenue and Changes in Net Assets			Component Unit Hawarden Comm. Hospital
Governmental Activities	Business-Type Activities	Total	
\$ (295,730)		\$ (295,730)	
(395,574)		(395,574)	
(224,745)		(224,745)	
73,274		73,274	
(346,959)		(346,959)	
(56,119)		(56,119)	
(90,490)		(90,490)	
<u>(1,336,343)</u>		<u>(1,336,343)</u>	
	\$ (2,269)	(2,269)	
	(82,924)	(82,924)	
	(258,720)	(258,720)	
	96,007	96,007	
	5,051	5,051	
	18,485	18,485	
	7,551	7,551	
	<u>(216,819)</u>	<u>(216,819)</u>	
<u>(1,336,343)</u>	<u>(216,819)</u>	<u>(1,553,162)</u>	
			\$ 51,747
836,923	-	836,923	-
223,450	-	223,450	-
-	-	-	223,450
86,592	195,898	282,490	13,142
230,069	-	230,069	-
625	35,500	36,125	-
32,759	51,580	84,339	-
387,000	(387,000)	-	-
<u>1,797,418</u>	<u>(104,022)</u>	<u>1,693,396</u>	<u>236,592</u>
461,075	(320,841)	140,234	288,339
8,767,442	5,312,045	14,079,487	1,619,338
(50,000)	50,000	-	-
<u>8,717,442</u>	<u>5,362,045</u>	<u>14,079,487</u>	<u>1,769,220</u>
<u>\$ 9,178,517</u>	<u>\$ 5,041,204</u>	<u>\$ 14,219,721</u>	<u>\$ 2,057,559</u>

CITY OF HAWARDEN, IOWA
BALANCE SHEET
Governmental Funds
JUNE 30, 2006

	General	TIF
Assets		
Cash and Pooled Investments	\$ 246,505	\$ 147,934
Investments	-	-
Receivables (Net, where applicable, of allowance for uncollectibles)		
Accounts	82,588	-
Taxes	7,928	5,739
Subsequent Year Taxes	331,901	348,006
Accrued Interest	-	-
Special Assessments	3,857	-
Pledges Receivable	-	-
Notes Receivable	158,621	-
Due from Other Funds	232,780	-
Due from Other Governmental Agencies	-	-
Prepaid Assets	45,681	-
Total Assets	<u>1,109,861</u>	<u>501,679</u>
Liabilities and Fund Balances		
Liabilities:		
Accounts Payable	26,868	7
Accrued Wages and Compensated Absences	14,887	-
Accrued Expenses	528	-
Due to Other Funds	-	-
Notes Payable	158,621	-
Unearned Revenue	772	3,773
Deferred Revenue - Subsequent Year Taxes	331,901	348,006
Advance from Other Funds	-	466,644
Total Liabilities	<u>533,577</u>	<u>818,430</u>
Fund Balances:		
Reserved for:		
Debt Service	-	-
Library Endowment	-	-
Prepaid Items	45,681	-
Unreserved for:		
General Fund	530,603	-
Special Revenue Fund	-	(316,751)
Capital Project Fund	-	-
Total Fund Balances	<u>576,284</u>	<u>(316,751)</u>
Total Liabilities and Equity	<u>\$ 1,109,861</u>	<u>\$ 501,679</u>

Debt Service		Other Governmental Funds	Total Governmental Funds
\$	37,212	\$ 284,245	\$ 715,896
	-	195,934	195,934
	-	345	82,933
	2,141	2,941	18,749
	91,655	121,215	892,777
	-	1,044	1,044
	-	-	3,857
	-	35,000	35,000
	-	-	158,621
	-	-	232,780
	-	78,198	78,198
	-	-	45,681
	131,008	718,922	2,461,470
	-	77,684	104,559
	-	-	14,887
	-	-	528
	-	3,254	3,254
	-	-	158,621
	-	-	4,545
	91,655	141,215	912,777
	-	-	466,644
	91,655	222,153	1,665,815
	39,353	-	39,353
	-	164,989	164,989
	-	-	45,681
	-	-	530,603
	-	31,093	(285,658)
	-	300,687	300,687
	39,353	496,769	795,655
\$	131,008	\$ 718,922	\$ 2,461,470

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CITY OF HAWARDEN, IOWA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
For the Year Ended June 30, 2006

Amounts reported for Governmental Activities in the Statement of Net assets are different because:

Total Fund Balance - Governmental Funds (page 18)	\$ 795,655
Infrastructure, property, and equipment used in governmental activities are not financial resources and, therefore, are not reported in the funds	8,228,278
Internal service funds are used by management to acquire the capital equipment which is provided to user departments and are included in the statement of net assets.	1,290,632
Deferred revenues that provide current financial resources for governmental activities	24,545
Accrued expenses from the balance sheet that require current financial resources for governmental activities	(20,396)
Bond issue costs are reported in the governmental activities but are not reported in the funds as they do not provide current economic resources	12,931
Accrued compensated absences not reported on the modified accrual basis.	(28,128)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	<u>(1,125,000)</u>
Total Net Assets - Governmental Activities (page 14)	<u><u>\$ 9,178,517</u></u>

CITY OF HAWARDEN, IOWA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Funds
Year Ended June 30, 2006

	General	TIF	Debt Service
Revenue:			
Taxes	\$ 301,157	\$ 323,137	\$ 97,199
Special Assessments	3,669	-	-
Licenses and Permits	20,284	-	-
Intergovernmental Revenue	31,684	-	-
Charges for Services	232,427	-	-
Fines and Forfeits	16,051	-	-
Contributions	604	-	-
Refunds/Reimbursements	43,135	-	5,828
Rental Income	27,432	-	-
Interest	21,499	7,707	12,579
Miscellaneous	1,703	-	-
Total Revenue	699,645	330,844	115,606
Expenditures:			
Public Safety	463,686	-	-
Public Works	255,849	-	-
Health and Social Services	-	-	-
Culture and Recreation	358,694	-	-
Community and Economic Development	55,224	258,000	-
General Government	109,653	-	-
Capital Projects	-	160,118	-
Debt Service	-	18,341	168,619
Total Expenditures	1,243,106	436,459	168,619
Excess (deficiency) of revenues over expenditures	(543,461)	(105,615)	(53,013)
Other financing sources (uses):			
Transfers In	641,395	-	64,895
Transfers Out	(22,600)	(98,895)	-
Total other financing sources (uses)	618,795	(98,895)	64,895
Net Change in Fund Balance	75,334	(204,510)	11,882
Fund balances-beginning of year	500,950	(62,241)	27,471
Prior Period Adjustment	-	(50,000)	-
Beginning Fund balances (Deficits), as restated	500,950	(112,241)	27,471
Fund balances (Deficits)- end of year	\$ 576,284	\$ (316,751)	\$ 39,353

Other Governmental Funds		Total Governmental Funds	
\$	111,656	\$	833,149
	-		3,669
	-		20,284
	880,059		911,743
	-		232,427
	-		16,051
	66,902		67,506
	7,306		56,269
	-		27,432
	23,322		65,107
	1,803		3,506
	<u>1,091,048</u>		<u>2,237,143</u>
	21,582		485,268
	32,000		287,849
	223,450		223,450
	10,172		368,866
	132,539		445,763
	-		109,653
	386,255		546,373
	-		186,960
	<u>805,998</u>		<u>2,654,182</u>
	<u>285,050</u>		<u>(417,039)</u>
	262,548		968,838
	(460,343)		(581,838)
	<u>(197,795)</u>		<u>387,000</u>
	87,255		(30,039)
	409,514		875,694
	-		(50,000)
	<u>409,514</u>		<u>825,694</u>
\$	<u>496,769</u>	\$	<u>795,655</u>

CITY OF HAWARDEN, IOWA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (page 21) \$ (30,039)

Governmental funds report capital outlays, including infrastructure, as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Capital outlays were exceeded by depreciation expense in the current year as follows:

Expenditures for capital assets	\$ 569,574	
Depreciation expense	<u>(253,543)</u>	316,031

Revenues reported in the funds that are not available to provide current financial resources 20,847

Accrued interest expense that does not require current financial resources (5,608)

Long-term accrual of compensated absences is not reported in the governmental funds as it does not consume current financial resources. The net change in in the long-term compensated absences for the year was: (3,115)

Internal service funds are used by management to fund and maintain the City's insurance policies provided to user departments and for the maintenance, repair, and replacement of the City's automotive equipment and are included in the statement of net assets. The net revenue of the internal service funds is reported with governmental activities. 60,881

The effect of bond issuance costs when new debt is issued, whereas, these amounts are deferred and amortized in the Statement of Activities (2,922)

The repayment of the principal of bonded long-term debt consumes the current financial resources of governmental funds without affecting the net assets. The statement of activities does not reflect the payment of principal on bonded long-term debt. The principal paid on bonded long-term debt during the current year was: 105,000

Change in net assets of governmental activities (page 16) \$ 461,075

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CITY OF HAWARDEN, IOWA
COMBINING STATEMENT OF NET ASSETS
Proprietary Funds
June 30, 2006

	Business Type Activities		
	Water Utility	Waste Water Treatment Utility	Electric Utility
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ -	\$ 14,805	\$ -
Investments	-	-	-
Receivables (Net, where applicable, of allowance for uncollectibles)			
Accounts	25,014	15,047	51,499
Accrued Interest	2,598	3,897	12,898
Estimated Unbilled Usage	18,151	12,108	101,033
Due from Other Funds	-	-	7,324
Investment in Joint Venture	-	-	868,878
Advances to Other Funds	-	200,000	266,644
Inventories	36,147	-	190,999
Prepaid Assets	3,802	3,107	19,694
Non-Current Assets:			
Restricted Assets:			
Cash and Cash Equivalents- Council Restricted Plant Replacement	147,512	173,553	35,114
Cash and Cash Equivalents - Bond Reserve	-	-	31,277
Investments- Bond Reserve	-	-	393,965
Investments - Council Restricted Plant Replacement	200,000	300,000	500,000
Customer Deposits	-	-	-
Bond Issue Costs	-	-	39,354
Land	33,873	130	-
Infrastructure, Property and Equipment, Net of Accumulated Depreciation	826,974	488,430	1,744,406
Total Assets	1,294,071	1,211,077	4,263,085
LIABILITIES			
Current Liabilities:			
Accounts Payable	8,326	3,100	144,637
Accrued Wages	745	618	3,988
Accrued Expenses	1,264	79	3,577
Due to Other Funds	73,064	-	145,228
Due to Other Governments	-	-	-
Accrued Postclosure Costs	-	-	-
Payables from Restricted Assets:			
Customer Deposits	-	-	-
Accrued Revenue Bond Interest	-	-	8,910
Revenue Bonds - Current	-	-	250,000
Noncurrent Liabilities:			
Due within one year:			
Revenue Bonds Payable	-	-	-
Compensated Absences and Benefits	244	135	814
Due in more than one year:			
Revenue Bonds Payable	-	-	2,695,000
Compensated Absences and Benefits, Long-Term	2,195	1,210	7,322
Total Liabilities	85,838	5,142	3,259,476
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	860,847	488,560	(1,200,594)
Restricted for:			
Revenue Bonds	-	-	166,332
Investment in Joint Venture	-	-	868,878
Unrestricted	347,386	717,375	1,168,993
Total Net Assets	\$ 1,208,233	\$ 1,205,935	\$ 1,003,609

Business Type Activities					Governmental Activities
Gas Utility	Solid Waste Utility	Telephone Utility	Cable/Internet Utility	Total	Internal Service
\$ 254	\$ 59,819	\$ 250,592	\$ -	\$ 325,470	\$ 287,834
-	-	-	-	-	300,000
46,023	10,076	72,056	2,795	222,510	99
206	2,338	2,598	-	24,535	3,897
29,477	8,124	-	-	168,893	-
133,250	-	-	-	140,574	11,649
-	33,776	-	-	902,654	-
-	-	-	-	466,644	-
30,866	-	112,335	17,912	388,259	-
4,956	2,250	4,864	2,882	41,555	-
158,166	10,523	92,058	92,808	709,734	-
-	-	-	-	31,277	-
-	-	-	-	393,965	-
-	180,000	200,000	-	1,380,000	-
32,577	-	6,344	-	38,921	-
-	-	-	-	39,354	-
6	22,085	-	-	56,094	-
172,869	-	51,756	181,592	3,466,027	701,759
608,650	328,991	792,603	297,989	8,796,466	1,305,238
33,676	11,343	78,024	17,734	296,840	14,606
1,338	-	2,125	625	9,439	-
1,048	10	-	457	6,435	-
129,104	-	-	34,353	381,749	-
-	-	37,332	-	37,332	-
-	6,120	-	-	6,120	-
32,577	-	6,344	-	38,921	-
-	-	-	-	8,910	-
-	-	-	-	250,000	-
-	-	-	-	-	-
344	-	768	148	2,453	-
-	-	-	-	2,695,000	-
3,097	-	6,912	1,327	22,063	-
201,184	17,473	131,505	54,644	3,755,262	14,606
172,875	22,085	51,756	181,592	577,121	701,759
-	-	-	-	166,332	-
-	33,776	-	-	902,654	-
234,591	255,657	609,342	61,753	3,395,097	588,873
\$ 407,466	\$ 311,518	\$ 661,098	\$ 243,345	\$ 5,041,204	\$ 1,290,632

CITY OF HAWARDEN, IOWA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS
Proprietary Funds
For the Year Ended June 30, 2006

	Business Type Activities		
	Water Utility	Waste Water Treatment Utility	Electric Utility
Operating Revenues:			
Charges for Services	\$ 260,393	\$ 223,455	\$ 1,868,954
Total Operating Revenue	260,393	223,455	1,868,954
Operating Expenses:			
Resale Purchases			849,448
Employee Services	59,968	42,519	132,448
Contract Services	85,653	110,851	144,939
Supplies	39,613	50,044	66,522
Repairs and Improvements	11,305	13,063	45,242
Utilities	12,079	29,945	
Miscellaneous	785	1,064	13,318
Depreciation	53,259	58,893	583,388
Amortization			30,362
Total Operating Expenses	262,662	306,379	1,865,667
Operating Income (Loss)	(2,269)	(82,924)	3,287
Non-Operating Income (Expense):			
Interest Income	11,873	19,745	128,353
Sale of Uncapitalized Assets			
Other Non-operating Revenues (Expenses)	8,019	374	26,020
Interest Expense			(262,007)
Total Non-Operating Income (Expenses)	19,892	20,119	(107,634)
Income (Loss) before Contributions and Transfers	17,623	(62,805)	(104,347)
Transfers Out	(7,000)	(10,000)	(207,500)
Change in Net Assets	10,623	(72,805)	(311,847)
Net Assets - Beginning	1,197,610	1,228,740	1,315,456
Prior Period Adjustment		50,000	
Net Assets -Beginning, as restated	1,197,610	1,278,740	1,315,456
Net Assets - Ending	\$ 1,208,233	\$ 1,205,935	\$ 1,003,609

Business Type Activities					Governmental Activities Internal Service
Gas Utility	Solid Waste Utility	Telephone Utility	Cable/Internet Utility	Total	
\$ 1,514,500	\$ 160,756	\$ 879,258	\$ 340,856	\$ 5,248,172	\$ 191,000
1,514,500	160,756	879,258	340,856	5,248,172	191,000
1,132,778	137,085	396,744	163,890	2,679,945	
90,235		70,571	43,942	439,683	
137,606	17,080	294,053	68,357	858,539	
22,122	330	37,370	26,295	242,296	3,356
11,362	1,000	9,608	10,218	101,798	
	136	11,384		53,544	
4,206	74	38,623	930	59,000	
20,184		2,420	19,673	737,817	133,677
				30,362	
1,418,493	155,705	860,773	333,305	5,202,984	137,033
96,007	5,051	18,485	7,551	45,188	53,967
1,113	10,861	22,361	1,592	195,898	21,485
		24,400	11,100	35,500	
7,172	479	8,558	958	51,580	(14,571)
				(262,007)	
8,285	11,340	55,319	13,650	20,971	6,914
104,292	16,391	73,804	21,201	66,159	60,881
(132,500)		(30,000)		(387,000)	
(28,208)	16,391	43,804	21,201	(320,841)	60,881
435,674	295,127	617,294	222,144	5,312,045	1,229,751
				50,000	
435,674	295,127	617,294	222,144	5,362,045	1,229,751
\$ 407,466	\$ 311,518	\$ 661,098	\$ 243,345	\$ 5,041,204	\$ 1,290,632

CITY OF HAWARDEN, IOWA
COMBINING STATEMENT OF CASH FLOWS
Proprietary Funds
For the Year Ended June 30, 2006

	Business Type Activities		
	Water Utility	Waste Water Treatment Utility	Electric Utility
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	\$ 250,365	\$ 217,284	\$ 1,693,425
Cash Received from Interfund Services Provided			
Cash Paid to Suppliers for Goods and Services	(136,984)	(193,485)	(1,086,050)
Cash Paid to Employees for Services	(59,726)	(42,097)	(130,919)
Cash Paid for Interfund Services Provided	(9,750)	(10,250)	(40,000)
Other Nonoperating Income	8,019	374	155,313
Net Cash Provided (Used) by Operating Activities	<u>51,924</u>	<u>(28,174)</u>	<u>591,769</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and Construction of Capital Assets	(13,740)	(26,595)	(278,712)
Principal Paid on Notes and Bonds			(200,000)
Interest Paid on Notes and Bonds			(169,183)
Net Cash (Used) by Capital and Related Financing Activities	<u>(13,740)</u>	<u>(26,595)</u>	<u>(647,895)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Operating Transfers to Other Funds	(7,000)	(10,000)	(207,500)
Advances From (To) Other Funds		(150,000)	32,041
Due From (To) Other Funds	1,553		(63,273)
Net Cash (Used) for Non-Capital Financing Activities	<u>(5,447)</u>	<u>(160,000)</u>	<u>(238,732)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from Sale of Investment Securities			83,035
Interest and Dividends on Investments	10,563	16,704	60,795
Net Cash Provided for Investing Activities	<u>10,563</u>	<u>16,704</u>	<u>143,830</u>
Net Increase (Decrease) in Cash and Cash Equivalents	43,300	(198,065)	(151,028)
Cash and Cash Equivalents at Beginning of Year	<u>104,212</u>	<u>386,423</u>	<u>217,419</u>
Cash and Cash Equivalents at End of Year	<u>\$ 147,512</u>	<u>\$ 188,358</u>	<u>\$ 66,391</u>

Business Type Activities					Governmental Activities
Gas Utility	Solid Waste Utility	Telephone Utility	Cable/Internet Utility	Total	Internal Service
\$ 1,518,092	\$ 156,851	\$ 878,462	\$ 341,350	\$ 5,055,829	\$ 191,000
(1,293,657)	(155,985)	(725,613)	(257,130)	(3,848,904)	(3,356)
(89,758)		(69,009)	(43,786)	(435,295)	
(8,000)	(1,000)	(8,500)	(8,500)	(86,000)	
7,172	479	32,958	12,058	216,373	
133,849	345	108,298	43,992	902,003	187,644
(26,302)				(345,349)	(175,922)
				(200,000)	
				(169,183)	
(26,302)	-	-	-	(714,532)	(175,922)
(132,500)		(30,000)		(387,000)	
				(117,959)	
31,067			(30,683)	(61,336)	
(101,433)	-	(30,000)	(30,683)	(566,295)	-
907	9,682	20,203	1,592	83,035	225,000
				120,446	18,742
907	9,682	20,203	1,592	203,481	243,742
7,021	10,027	98,501	14,901	(175,343)	255,464
183,976	60,315	250,493	77,907	1,280,745	32,370
\$ 190,997	\$ 70,342	\$ 348,994	\$ 92,808	\$ 1,105,402	\$ 287,834

(Continued)

CITY OF HAWARDEN, IOWA
COMBINING STATEMENT OF CASH FLOWS (Continued)
Proprietary Funds
For the Year Ended June 30, 2006

	Business Type Activities		
	Water Utility	Waste Water Treatment Utility	Electric Utility
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ (2,269)	\$ (82,924)	\$ 3,287
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation	53,259	58,893	583,388
Amortization			30,362
Miscellaneous Non-Operating Income	8,019	374	9,960
(Increase) Decrease in Assets:			
Accounts Receivable	(536)	(714)	9,081
Estimated Unbilled Usage	(9,492)	(5,457)	(39,257)
Inventories	(2,605)		3,230
Prepaid Expenses	(389)	(176)	(968)
Increase (Decrease) in Liabilities			
Accounts Payable	5,276	1,396	(8,843)
Accrued Wages	159	213	1,293
Accrued Compensated Absences	83	209	236
Due To Other Governments			
Accrued Expenses	419	12	
Customer Deposits			
Total Adjustments	54,193	54,750	588,482
Net Cash Provided (Used) by Operating Activities	\$ 51,924	\$ (28,174)	\$ 591,769

**Reconciliation of Cash and Cash Equivalents
to the Balance Sheet:**

Cash and Cash Equivalents	\$ -	\$ 14,805	\$ -
Customer Deposits	-	-	-
Restricted Cash and Cash Equivalents	147,512	173,553	66,391
	\$ 147,512	\$ 188,358	\$ 66,391

Business Type Activities					Governmental Activities Internal Service
Gas Utility	Solid Waste Utility	Telephone Utility	Cable/Internet Utility	Total	
\$ 96,007	\$ 5,051	\$ 18,485	\$ 7,551	\$ 45,188	\$ 53,967
20,184		2,420	19,673	737,817	133,677
7,172	479	32,958	12,058	30,362	
				71,020	(14,571)
13,506	(85)	(2,103)	494	19,643	
(15,496)	(3,820)			(73,522)	
(1,640)		(6,752)	3,406	(4,361)	
(13)		(53)	(15)	(1,614)	
8,096	(600)	56,624	695	62,644	14,571
389		318	97	2,469	
88		1,244	59	1,919	
		3,850		3,850	
(26)	(680)		(26)	(301)	
5,582		1,307		6,889	
37,842	(4,706)	89,813	36,441	856,815	133,677
\$ 133,849	\$ 345	\$ 108,298	\$ 43,992	\$ 902,003	\$ 187,644
\$ 254	\$ 59,819	\$ 250,592	\$ -	\$ 325,470	\$ 287,834
32,577	-	6,344	-	38,921	-
158,166	10,523	92,058	92,808	741,011	-
\$ 190,997	\$ 70,342	\$ 348,994	\$ 92,808	\$ 1,105,402	\$ 287,834

CITY OF HAWARDEN, IOWA
STATEMENT OF FIDUCIARY NET ASSETS
Fiduciary Funds
June 30, 2006

	Pension Trust Fund			
	Police Retirement Fund		Agency Funds	Total
ASSETS				
Cash and Pooled Investments	\$	15	\$ 20,444	\$ 20,459
Accounts Receivable		-	2,500	2,500
Total Assets		15	22,944	22,959
LIABILITIES				
Accounts Payable		341	5,000	5,341
Due to Other Governments		-	17,944	17,944
Total Liabilities		341	22,944	23,285
NET ASSETS				
Held in Trust for Pension Benefits		(326)	-	(326)
Total Net Assets	\$	(326)	\$ -	\$ (326)

CITY OF HAWARDEN, IOWA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Fiduciary Funds
For the Year Ended June 30, 2006

	<u>Pension Trust Fund</u>
	<u>Police Retirement Fund</u>
ADDITIONS	
Contributions:	
Employer	\$ 21,582
Total Contributions	<u>21,582</u>
Investment Income:	
Interest, Dividends and Market Gain	<u>16</u>
Net Investment Income	<u>16</u>
Total Additions	<u>21,598</u>
DEDUCTIONS	
Pension Benefits	21,980
Administrative Costs	<u>575</u>
Total Deductions	<u>22,555</u>
Net (Decrease)	(957)
Net Assets -- Beginning of Period	<u>631</u>
Net Assets -- End of Period	<u>\$ (326)</u>

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CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2006

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hawarden is a political subdivision of the State of Iowa located in Sioux County. It was first incorporated in 1887 and operates under the Mayor-Council form of government with the Mayor and Council elected on a non-partisan basis. The City administers the following programs under its charter: public safety, public works, health and social services, culture and recreation, community and economic development and general government. It also provides water, sewer, electric and sanitation utilities and telephone and cable/internet services.

The financial statements of the City of Hawarden have been prepared in conformity with U.S. generally accepted accounting principles as described by the Governmental Accounting Standards Board.

For financial reporting purposes, the City of Hawarden has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

A. Reporting Entity

These financial statements present the City of Hawarden (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its financial relationship with the City. Complete financial statements of the individual component unit, which issued separate financial statements as noted below, can be obtained from their administrative offices.

Discretely Presented Component Unit – The Hawarden Community Hospital (Hospital) is organized under Chapter 392 of the Code of Iowa and governed by a five member Board of Trustees elected for four year terms. The City of Hawarden annually provides significant operating subsidies to the Hospital. In accordance with criteria set forth by the Governmental Accounting Standards Board. The Hospital meets the definition of a component unit which should be discretely presented. The Hospital is accounted for as a Proprietary Fund in these financial statements. Complete financial statements are on file at the hospital.

Jointly Governed Organizations – The City also participates in several jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following boards and commissions: Sioux County Conference Board, Sioux County Emergency Management Commission and Sioux County Joint E911 Service Board.

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2006

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

The City does not allocate indirect costs. Certain expenses of the City are accounted for through the internal service fund on a cost-reimbursement basis.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental, the City's capital equipment internal service fund, and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reported the following major governmental funds.

The General Fund is the general operating fund of the City. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs not paid from other funds.

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2006

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

The Special Revenue Tax Increment Financing Revenues Fund is used to account for funds provided to private companies for economic development and related tax revenues from the tax increment financing district.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. General property taxes or tax increment financing are to provide the revenues for the debt services payments.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation of a municipally owned water system, which provides services to the residents of the City.

The Waste Water Fund accounts for the operation of a municipally owned sewage collection and treatment facility, which provides services to the residents of the City.

The Electric Fund accounts for the operation of a municipally owned electric system, which distributes electrical power to the residents of the City.

The Gas Fund accounts for the operation of a municipally owned natural gas system, which distributes natural gas to the residents of the City.

The Solid Waste Fund accounts for the collection and disposal of solid waste. The services are performed by a private contractor. The City is responsible for the billing and collection of the customers' accounts and payments to the contractor.

The Telephone Fund accounts for the operation of a municipally owned telephone system, providing telephone service to residents of the City.

The Cable/Internet Fund accounts for the operation of a municipally owned cable/internet system providing cable/internet services to residents of the City.

Internal Service Fund – The capital equipment fund is used to account for the financing of goods to other departments of the City on a cost-recovery basis. This fund is presented in the proprietary fund financial statements. Because the principal users of the capital equipment fund are the City's governmental activities, the financial statements of the fund are consolidated into the governmental column when presented in the government-wide financial statements.

Fiduciary Fund Types – These funds account for assets held by the government in a trustees capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement.

- 1) **Pension Trust Fund** – The Police Retirement Fund represents the resources accumulated to fund police retirements. These funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting, so that revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2006

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

- 2) Agency Funds – The Payroll Clearing Fund acts as a clearing mechanism for payroll which is shared by various funds of the City. The Flex Spending Fund is used to account for funds withheld from the checks of city employees for qualified expenses. The Community Projects Fund accounts for funds received by various organizations within the community and held until a specific project is completed by those organizations.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers property taxes to be available if they are collected within 60 days after year end. A one-year availability period is used for revenue recognition for all other governmental fund revenues.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Those revenues susceptible to accrual are property taxes, assessments, and intergovernmental revenues. Licenses, fines and permits are not susceptible to accrual because generally they are not measurable until received in cash.

The proprietary funds of the City apply all applicable GASB pronouncements, as well as the following FASB pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2006

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Pooled Cash, Investments and Cash Equivalents – The cash balances of most City funds are pooled and invested in money market checking accounts. Interest earned on those investments is recorded in the General Fund unless otherwise provided by law. Other investments held by specific funds consist of non-negotiable certificates of deposit which are stated at cost or U.S. government securities stated at fair value determined by quoted market prices or in the Iowa Public Agency Investment trust stated at fair value determined by current share prices.

For the purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable, Including Tax Increment Financing – Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represent taxes collected by the County but not remitted to the City at June 30, 2006 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects tax asking contained in the budget certified to the County Board of Supervisors March, 2005.

Customer Accounts and Unbilled Usage – Accounts receivable are recorded at the time the service is billed, net of an allowance for doubtful accounts of \$16,662 and \$11,475 at June 30, 2006 and 2005, respectively. Unbilled usage, recorded in the Enterprise Funds for service consumed between periodic scheduled billing dates, is estimated and is recognized as revenue in the period in which the service is provided.

Also, the Hawarden Community Hospital's accounts receivable consists of patient receivables net of allowances for estimated third-party contractual adjustments and uncollectibles of \$203,659 and \$158,813 at June 30, 2006 and 2005, respectively.

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2006

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa.

Internal Balances – During the course of its operations, the City has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2006, the balance of interfund amounts payable or receivable have been recorded in the fund financial statements.

Advances From and To Other Funds – Advances are long-term borrowings between funds which are repaid over time plus interest.

Inventories – Inventories are valued at the lower of cost (first-in, first-out) or market. Governmental Fund Type inventories of expendable supplies held for consumption are recorded as an expenditure at the time of purchase and are not recorded on the combined balance sheet because the amounts are not material. Inventories in the Enterprise Funds, consisting of material and supplies, are reported as an expense when consumed.

Restricted Assets – Proceeds from debt and funds set aside for payment of enterprise fund revenue bonds are classified as restricted assets since their use is limited by applicable bond indentures. Customer deposits are monies paid by customers and held by the City until future refunding or application to an unpaid account balance. It is the City's policy to first apply unrestricted resources when an expense is incurred for purposes for which either are available.

Capital Assets – Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g. roads, curbs, gutters) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Roads have been capitalized using estimated historical cost beginning in 1980 as required by GASB 34. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of the following thresholds.

<u>Asset Class</u>	<u>Amount</u>
General Fixed Assets	\$ 2,000
Utility Fixed Assets	5,000
Infrastructure	50,000

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	30 – 100 years
Improvements other than buildings	15 – 40 years
Vehicles	5 – 10 years
Equipment	5 – 20 years
Infrastructure	50 – 100 years

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2006

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of notes receivable not currently due, as well as delinquent property tax receivable and special assessments not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax.

Compensated Absences – City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid by the General Fund.

Long-Term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Budgets and Budgetary Accounting – The budgetary comparison and related disclosures are reported as Required Supplementary Information. Expenditures for the year ended June 30, 2006 exceeded amounts budgeted in Health and Social Services.

Note 2 - POOLED CASH , INVESTMENTS AND CASH EQUIVALENTS

The City deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2006

Note 2 - POOLED CASH , INVESTMENTS AND CASH EQUIVALENTS – (Continued)

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. There were no differences in investments held during the year from those at June 30, 2006.

At June 30, 2006 the City had the following investments:

	Credit Risk	Fair Value
U.S. Treasury Notes	N/A	\$ 40,000

Note 3 - JOINT VENTURES

MBMECA - The City is a participant in the Missouri Basin Municipal Electric Cooperative Association, a joint venture for the construction and maintenance of power lines from the Northwest Iowa Power Cooperative. The construction of the lines is accomplished by NIPCO and there are no actual dedicated lines, but rather an agreement which guarantees the municipalities the right to draw power over the lines at a raw power cost without transmission charges. The City owns an 11.75 percent share of the venture with twelve other cities sharing in the ownership at varying percentages. The City's investment in the joint venture is accounted for on the equity method in the Electric Fund. The net income reported on the financial statements is reported on the City's fiscal year, not on the Cooperative's year; therefore, the summary data presented below does not agree with the financial statements.

Summary financial information of the joint venture for the year ended December 31, 2005 follows:

	Total	City Share
Assets	\$ 7,733,573	\$ 908,695
Liabilities	236,375	27,774
Equity	7,497,198	880,921
	<u>7,733,573</u>	<u>908,695</u>
Revenues	1,005,165	118,107
Expenses	1,118,550	131,430
Net Decrease in Equity	<u>\$ (113,385)</u>	<u>\$ (13,323)</u>

The joint venture has no outstanding debt. Complete financial statements can be obtained directly from MBMECA.

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2006

Note 3 - JOINT VENTURES – (Continued)

Northwest Iowa Solid Waste - In 1991 the City contributed \$33,776 capital to Northwest Iowa Area Solid Waste Agency for membership in the Agency. Membership provides the City with use of solid waste facilities. In the event of the City's withdrawal from the Agency or dissolution, the City is entitled to the lower of its capital contribution or a share of the Agency's assets based on the City's prorata share of contributions by all municipalities. Complete financial statements can be obtained directly from Northwest Iowa Solid Waste.

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2006

Note 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Primary Government				
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 473,625	-	-	\$ 473,625
Construction in Progress-improvements	31,205	\$ 189,938	-	221,143
Construction in Progress-buildings	72,470	42,021	\$ 17,649	96,843
Total capital assets not being depreciated	577,300	231,959	17,649	791,610
Capital assets being depreciated:				
Buildings	5,445,225	133,478	-	5,578,703
Improvements other than buildings	806,491	193,070	-	999,561
Equipment and vehicles	2,428,604	215,237	129,724	2,514,117
Infrastructure, road network	4,387,560	-	-	4,387,560
Total capital assets being depreciated	13,067,880	541,785	129,724	13,479,942
Less: Accumulated Depreciation for:				
Buildings	1,960,490	124,525	-	2,085,015
Improvements other than buildings	480,977	28,677	-	509,654
Equipment and vehicles	1,575,333	161,837	119,123	1,618,047
Infrastructure, road network	1,056,619	72,181	-	1,128,800
Total Accumulated Depreciation	5,073,419	387,220	119,123	5,341,516
Total capital assets being depreciated, net	7,994,461	154,565	10,601	8,138,426
Governmental activities capital assets, net	\$ 8,571,761	\$ 386,524	\$ 28,250	\$ 8,930,036
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 56,094	-	-	\$ 56,094
Total capital assets not being depreciated	56,094	-	-	56,094
Capital assets being depreciated:				
Buildings	102,703	-	-	102,703
Utility Plant	11,633,247	\$ 407,928	-	12,041,175
Total capital assets being depreciated	11,735,950	407,928	-	12,143,878
Less: Accumulated Depreciation for:				
Buildings	76,759	2,795	-	79,554
Utility Plant	7,863,275	735,022	-	8,598,297
Total Accumulated Depreciation	7,940,034	737,817	-	8,677,851
Total capital assets being depreciated, net	3,795,916	(329,889)	-	3,466,027
Business-Type activities capital assets, net	\$ 3,852,010	\$ (329,889)	-	\$ 3,522,121

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2006

Note 4 - CAPITAL ASSETS – (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

Public Safety	\$ 25,502
Public Works	136,635
Health & Social Services	1,295
Culture & Recreation	63,082
Community Economic Development	20,854
General Government	139,852
Total depreciation expense – governmental activities	<u>\$ 387,220</u>

The governmental depreciation expense amount shown above includes \$133,677 of depreciation expense from the City's internal service fund which is recorded as a governmental activity on the government-wide statements.

Business-Type Activities:

Water	\$ 53,259
Wastewater	58,893
Electric	583,388
Gas	20,184
Cable/Internet	19,673
Telephone	2,420
Total depreciation expense – business type activities	<u>\$ 737,817</u>

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Discretely presented component unit				
Capital assets not being depreciated:				
Land	\$ 7,000	-	-	\$ 7,000
Construction-in-Progress	44,203	\$ 41,069	-	85,272
	51,203	41,069	-	92,272
Capital assets being depreciated:				
Land Improvements	28,089	-	-	28,089
Hospital	1,437,781	-	-	1,437,781
Fixed Equipment	513,619	-	-	513,619
Major Moveable Equipment	1,203,414	29,000	\$ 23,375	1,209,039
Total capital assets being depreciated	3,182,903	29,000	23,375	3,188,528
Less: Accumulated Depreciation for:				
Land Improvements	22,262	2,389	-	24,651
Hospital	856,127	46,377	-	902,504
Fixed Equipment	334,904	19,502	-	354,406
Major Moveable Equipment	873,684	96,462	5,009	965,137
Total Accumulated Depreciation	2,086,977	164,730	5,009	2,246,698
Total capital assets being depreciated, net	1,095,926	(135,730)	18,366	941,830
Total capital assets, net	<u>\$ 1,147,129</u>	<u>\$ (94,661)</u>	<u>\$ 18,366</u>	<u>\$ 1,034,102</u>
Total depreciation expense – discretely presented component unit				<u>\$ 164,730</u>

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2006

Note 4 - CAPITAL ASSETS – (Continued)

Reconciliation of Invested In Capital Assets, net of related debt.

	Governmental Activities	Business-Type Activities	Component Unit
Land	\$ 473,625	\$ 56,094	\$ 7,000
Construction-in-Progress	317,986	-	85,272
Capital Assets (net of accumulated depreciation)	8,138,426	3,466,027	941,830
Less: General Obligation Bonds Payable	1,125,000	-	-
Notes Payable	-	-	22,102
Revenue Bonds	-	2,945,000	-
Capital Lease	-	-	10,091
	<u>\$ 7,805,037</u>	<u>\$ 577,121</u>	<u>\$ 1,001,909</u>

Note 5 - CHANGES IN LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006	Due Within One Year
Governmental activities:					
Compensated Absences	\$ 25,013	\$ 23,443	\$ 20,328	\$ 28,128	\$ 2,813
General obligation bonds/notes	1,230,000	-	105,000	1,125,000	110,000
	<u>\$ 1,255,013</u>	<u>\$ 23,443</u>	<u>\$ 125,328</u>	<u>\$ 1,153,128</u>	<u>\$ 112,813</u>

Unamortized discount at June 30, 2006 on bonds sold at discount totaled \$3,491.

Unaccreted premium at June 30, 2006 on bonds sold at premium totaled \$4,357.

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006	Due Within One Year
Business type activities:					
Revenue notes	\$ 5,915,000	-	\$ 2,970,000	\$ 2,945,000	\$ 250,000
Compensated Absences	22,598	\$ 19,181	17,263	24,516	2,453
	<u>\$ 5,937,598</u>	<u>\$ 19,181</u>	<u>\$ 2,952,737</u>	<u>\$ 2,969,516</u>	<u>\$ 252,453</u>

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006	Due Within One Year
Component unit:					
Bank Note	\$ 37,328	-	\$ 15,226	\$ 22,102	\$ 15,187
Capital Lease	39,173	-	29,082	10,091	10,091
	<u>\$ 76,501</u>	<u>-</u>	<u>\$ 44,308</u>	<u>\$ 32,193</u>	<u>\$ 25,278</u>

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2006

Note 5 - CHANGES IN LONG-TERM LIABILITIES – (Continued)

General Obligation Bonds/Notes

Two issues of unmatured general obligation bonds/notes, totaling \$1,125,000 are outstanding at June 30, 2006. General obligation bonds/notes bear interest at rates ranging from 2.0-4.0% and mature in varying annual amounts, ranging from \$15,000 to \$95,000, with the final maturities due in the year ending June 1, 2018.

Details of general obligation bonds/notes payable at June 30, 2006 are as follows:

Governmental Activities:	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2006
General obligation bonds/notes:						
Capital Loan Notes	April 3, 2000	5.3-5.5%	June 1, 2008	35,000-60,000	480,000	\$ 225,000
General corporate purpose and refunding	May 1, 2003	2.0-4.0%	June 1, 2018	50,000-95,000	1,060,000	900,000
						<u>\$ 1,125,000</u>

A summary of the annual general obligation bond/note principal and interest requirements to maturity by year is as follows:

Year Ending June 30	Principal	Interest	Total
2007	\$ 110,000	\$ 43,600	\$ 153,600
2008	115,000	39,425	154,425
2009	125,000	34,655	159,655
2010	125,000	29,273	154,273
2011	70,000	23,830	93,830
2012-2016	395,000	80,980	475,980
2017-2018	185,000	11,110	196,110
Total	<u>\$ 1,125,000</u>	<u>\$ 262,873</u>	<u>\$ 1,387,873</u>

Revenue Notes

The City has pledged income derived from the acquired or constructed asset to pay debt service.

In January 2004, the City issued \$2,945,000 of Electric Revenue Refunding Notes for a crossover advance refunding of the Electric Revenue Notes, Series 1997. The proceeds of the Refunding Notes are held escrow until the crossover date of June 1, 2006. The 2004 bonds have an average interest rate of 3.81% and the 1997 bonds to be refunded have an average interest rate of 5.46%. As a result of this refunding the City will reduce its debt service payments over the next twelve years by \$129,789 and obtain an economic gain of \$101,116.

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2006

Note 5 - CHANGES IN LONG-TERM LIABILITIES – (Continued)

There are a number of limitations and restrictions contained in the revenue bond indenture summary. The reserve requirements are as follows:

<u>Enterprise</u>	<u>Type of Account</u>	<u>Required Balance June 30, 2006</u>	<u>Actual Balance June 30, 2006</u>
Electric	Electric Revenue Sinking Fund	\$ 29,744	\$ 30,742
Electric	Bond and Interest Reserve	294,500	294,500
Electric	Bond Improvement	100,000	100,000

These amounts are classified as restricted assets on the combined balance sheet.

Details of revenue notes payable at June 30, 2006 are as follows:

<u>Business Type Activities</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Final Due Date</u>	<u>Annual Payments</u>	<u>Amount Originally Issued</u>	<u>Outstanding June 30, 2006</u>
Revenue Notes:						
Electric (Series 1997)	Jan. 7, 1997	5.25-6.0%	June 1, 2016	25,000-355,000	\$ 3,795,000	-
Electric Crossover Refunding	Jan. 26, 2004	2.55-4.3%	June 1, 2016	250,000-350,000	2,945,000	\$ 2,945,000
						<u>\$ 2,945,000</u>

A summary of the annual revenue note principal and interest requirements to maturity is as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 250,000	\$ 106,923	\$ 356,923
2008	260,000	100,548	360,548
2009	265,000	92,877	357,877
2010	275,000	84,662	359,662
2011	285,000	75,312	360,312
2012-2016	1,610,000	204,650	1,814,650
Total	<u>\$ 2,945,000</u>	<u>\$ 664,972</u>	<u>\$ 3,609,972</u>

Bank Loans:

In FY02, the City borrowed \$180,000 for Wee Care Child Care for improvements to the leased portion of the community center. The City will make payments on this loan at the same terms as the Wee Care schedule of payments to the City as scheduled in Note 11.

Component Unit:

In May 2003, the Hospital took out a note from Farmers State Bank in Hawarden for \$25,000 to be used for the purchase of property and equipment. The note has an interest rate of 4.5% and will be repaid over three years in monthly installments of \$743 beginning June 28, 2004.

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2006

In May 2005, the Hospital took out a note from Farmers State Bank in Hawarden for \$21,500 to be used for the purchase of property and equipment. The note has an interest rate of 5.0% and will be repaid over three years in monthly installments of \$644 beginning June 11, 2005.

Annual debt service requirements related to the Notes are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 15,187	\$ 726	\$ 15,913
2008	6,915	177	6,434
	<u>\$ 22,102</u>	<u>\$ 903</u>	<u>\$ 23,005</u>

Component Unit Capital Lease:

The Hospital has entered into a capital lease agreement to acquire medical equipment at a cost of \$176,534. The liability under the capital lease is due in monthly installments of \$2,555, including interest at a rate of 6.1%.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	<u>\$ 10,091</u>	<u>\$ 129</u>	<u>\$ 10,220</u>

Note 6 - INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Road Use Tax	\$ 175,000
	Employee Benefit Levy	89,395
	Tax Increment Financing Revenues	14,000
	Capital Projects	
	Capital Improvement	10,000
	Enterprise	
	Electric	197,500
	Gas	122,500
	Telephone	30,000
	Wastewater	3,000
		<u>641,395</u>
Debt Service	Special Revenue:	
	Tax Increment Financing Revenues	<u>64,895</u>
		64,895
Fiduciary		
Police Retirement	Special Revenue:	
	Employee Benefit	<u>21,582</u>
		21,582
Capital Projects	General:	22,600
	Special Revenue:	
	Road Use Tax	45,000
	Tax Increment Financing Revenues	20,000
	Enterprise:	
	Water	7,000
	Electric	10,000
	Gas	10,000
	Wastewater	7,000
	Capital Projects	<u>140,948</u>
		<u>262,548</u>
Total		<u>\$ 990,420</u>

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2006

Note 6 - INTERFUND TRANSFERS - (Continued)

Transfers are used to move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources, as well as to move resources from the business-type activities to governmental funds to help finance general governmental operations.

Note 7 - INTERFUND RECEIVABLES/PAYABLES

During the course of its operations, the City has numerous transactions between funds to finance operations, provide services, construct assets, and service debt. To the extent that certain transactions between funds have not been paid or received as of June 30, 2006, balances of interfund amounts payable or receivable have been recorded as "due to other funds" and "due from other funds", respectively. Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as interfund balances.

The detail of short-term interfund receivables and payables at June 30, 2006 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Enterprise:	
	Gas	\$ 129,104
	Cable/Internet	34,353
	Water	65,741
	Electric	328
	Capital Projects	3,254
Enterprise:	Enterprise:	
Gas	Electric	133,250
Electric	Water	7,324
Internal Service:	Enterprise:	
Capital Equipment	Electric	11,649
		<u>\$ 385,003</u>

The detail of long-term advances to and from other funds at June 30, 2006 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Enterprise:	Special Revenue:	
Electric	Tax Increment Financing	\$ 266,644
Wastewater	Tax Increment Financing	200,000
		<u>\$ 466,644</u>

Note 8 - PENSION AND RETIREMENT FUND COMMITMENTS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute plan to members and beneficiaries. IPERS issues a publicly available financial report that includes financial

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2006

Note 8 - PENSION AND RETIREMENT FUND COMMITMENTS – (Continued)

statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.16% and 9.23%, respectively.

Contribution requirements are established by state statute. The City contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$64,350, \$59,558 and \$60,479, respectively, equal to the required contributions for each year.

In addition the Hawarden Municipal Hospital contributed the following amounts for the year ended June 30, 2006, 2005, and 2004, respectively, \$93,959, \$74,006, and \$65,100. These amounts also equal the required annual contributions.

Police Pension - The City maintains a single-employer, defined benefit pension plan (police retirement system), which was organized under Chapter 410 of the Code of Iowa. Police personnel who were in the employ of the City prior to July 1, 1971, are eligible to participate in the plan. Any eligible participant may be entitled to benefits if such member has served 22 years or more and shall have reached the age of 50 years; or who shall, while a member of the department, become mentally or physically permanently disabled while performing his duties. The salary benefit is equal to one-half the amount of salary received by him monthly at the date he actually retires from the department. Benefits are increased subsequent to retirement by 50% of any increase in the pension benefits for the rank at which the member retired. In the event of the death of a retired participant, the benefit paid to a surviving spouse is reduced to 50% of the retiree's benefit. Presently, the City has only one nonactive employee who qualifies as a participant because of employment prior to July 1, 1971. The payroll for employees covered by the system was \$-0- and the City's total payroll for the police department was \$187,796.

The amount shown below as the Actuarial Accrued Liability is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. This measure is the actuarial present value of credited projected benefits and is intended to (1) help users assess the system's funding status on a going-concern basis, (2) assess progress being made in accumulating sufficient assets to pay benefits when due, and (3) allow for comparisons among public employee retirement plans. The net pension obligation was determined as part of an actuarial valuation of the plan as of July 1, 2006.

Net Pension Obligation

Retirees and Beneficiaries Currently Receiving Benefits	\$ 160,773
Net Assets Available for Benefits at Market.....	-

There were no current year member contributions. Eligible participants were required to contribute annually an amount equal to 1% of current annual salary, or approximately \$200 per year. The City has chosen to fund the plan on a pay-as-you-go basis under which contributions

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2006

Note 8 - PENSION AND RETIREMENT FUND COMMITMENTS – (Continued)

to the plan above and beyond employee contributions are made at the same time and in the same amounts as benefit payments and expenses become due.

This method has been selected since no future entrants to the plan will occur because of the eligibility employment date. Presently, the total annual liability for pension benefits is approximately \$20,000 per year which the City feels can be funded on a pay-as-you-go basis through property tax levies since no funding of future benefits will be necessary due to a closed group situation which will result in no new participants.

The unfunded actuarial present value of credited projected benefits is \$160,773.

The unfunded actuarial present value of credited projected benefits is not recorded as a liability of the City. The City's contribution for the year was \$21,582 as required by the pay-as-you-go method of funding. This \$21,582 was paid by the City as required. The amount was not actuarially determined.

Three-year trend information is as follows:

	June 30, <u>2006</u>	June 30, <u>2005</u>	June 30 <u>2004</u>
Net assets available for benefits as a percentage of the net pension obligation applicable to the City's employees	0.00%	0.33%	1.70%
Unfunded net pension obligation as a percentage of the City's annual covered pay-roll	N/A	N/A	N/A
City's contributions to the pension plan as a percentage of annual covered payroll	N/A	N/A	N/A

This is a closed system with all active members retired. Taxes are levied to sufficiently compensate the retired members involved in this system.

Note 9 - RISK FINANCING

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During the 2005-06 fiscal year the City has elected to purchase commercial insurance to cover against the risk of loss. There have been no settlements that exceeded insurance coverage during the last three fiscal years.

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2006

Note 10 - POSTCLOSURE COSTS

The City's landfill site has been closed since 1986 but state and federal laws and regulations require the City perform certain maintenance and monitoring functions at the site for 30 years after closure. The long-term postclosure costs recorded in the Solid Waste Utility of \$6,120 represents the estimated postclosure costs related to the landfill. These amounts are based on what it would cost to perform all postclosure care during the year ended June 30, 2006. Actual costs may be higher due to inflation, changes in technology, changes in regulations, or unexpected test results.

Note 11 - NOTES RECEIVABLE

In fiscal year 2002, the City advance Wee Care Child Care \$180,000 for improvements to leased portion of community center. The note bears interest at 5.85% with payments as follows:

<u>Fiscal Year</u>	<u>Principal</u>
2007	\$ 6,178
2008	6,526
2009	6,942
2010	7,359
2011	7,801
2012-2016	46,590
2017-2021	62,408
2022	14,817
Total Note Receivable	<u>\$ 158,621</u>

Note 12 - RELATED PARTY TRANSACTIONS

Hawarden Mercy Medical Clinic

Effective January 1, 2005, the Hospital and Mercy Medical Services entered into a joint venture whereby each partner has a 50% sponsorship interest in Hawarden Community Clinic, LLC. (HCC). The Hospital and MMS share equally in the net income (loss) of HCC. The Hospital's share of HCC's 2006 and 2005 (from January 1 through June 30) operating loss was \$37,797 and \$59,069, respectively, and is included in joint venture loss, net in the accompanying statements of revenue, expenses and changes in net assets.

Prior to January 1, 2005, the Hospital and Mercy Medical Services (MMS) each had a 50% sponsorship interest in the Hawarden Mercy Medical Clinic (Clinic) located adjacent to the Hospital. Each party provided facilities, equipment and/or personnel to operate the Clinic, and shared equally in revenues and expenses. The Hospital's share of the Clinic's 2005 (from July 1 through December 31) was \$79,742 and is included in joint venture loss, net in the accompanying statements of revenue, expenses and changes in net assets.

The Hospital hires the employees of HCC and leases them back to HCC. Amounts received by the Hospital for expenses paid in 2006 and 2005 was \$227,177 and \$120,473, respectively, and is included in the accompanying statements of revenue, expenses and changes in net assets. The Hospital also received management fees from HCC totaling \$25,000 in 2006 and \$12,500 in 2005.

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2006

Note 12 - RELATED PARTY TRANSACTIONS – (Continued)

In addition, the Hospital receives monthly rent from the clinic with rental income totaling \$27,600 and \$27,600 for the years ended June 30, 2006 and 2005, respectively, and is included in other revenue.

Mercy Accounts Payable includes amounts due Mercy Medical Services and Mercy Medical Center related to the Hospital's portion of financial support for the Hawarden Mercy Medical Clinic and other professional and management fees. Mercy accounts payable as of June 30, 2006 and 2005 is summarized as follows:

	<u>2006</u>	<u>2005</u>
Mercy Medical Services for share of Hawarden Mercy Medical Clinic operating support	\$ 206,297	\$ 304,356
Mercy Medical Center for professional and Management services	<u>112,412</u>	<u>208,063</u>
	<u>\$ 318,709</u>	<u>\$512,419</u>

Note 13 - RESERVES

The following schedule reflects all reservations of fund balances as presented in the fund level statements:

	<u>Prepaid Items</u>	<u>Debt Service</u>	<u>Endowments/ Library</u>	<u>Total</u>
General Fund	\$ 45,681			\$ 45,681
Debt Service		\$ 39,353		39,353
Permanent Fund				
Marie Gregg/Vipond Trust			\$ 164,989	164,989
Total Reserves of Fund Balances	<u>\$ 45,681</u>	<u>\$ 39,353</u>	<u>\$ 164,989</u>	<u>\$ 250,023</u>

Note 14 - LEASES WITH RELATED PARTIES

The Telephone Fund leases certain assets from the Electric Fund. The lease includes fiber optic cable and other assets associated with providing telecommunications utility. The lease provides for annual payments of \$145,354 with no set minimum lease term.

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2006

Note 15 - PRIOR PERIOD ADJUSTMENT

A long-term advance between the TIF fund and the Wastewater fund was incorrectly recorded as a transfer rather than an advance in the prior year.

The error noted above had the following effect on the beginning fund balances:

	<u>Wastewater</u>	<u>TIF</u>
Beginning Fund Balance as previously reported	\$1,228,740	\$ (62,241)
Adjustment for long-term advance recorded as transfer	<u>50,000</u>	<u>(50,000)</u>
Beginning Fund Balance, as restated	<u>\$1,278,740</u>	<u>\$ (112,241)</u>

Note 16 - DEFICIT FUND BALANCES

The City has one fund with a deficit fund balance at June 30, 2006. The City intends to finance this deficit from tax increment property taxes.

The fund deficit is as follows:

TIF \$316,751

Note 17 - SUBSEQUENT EVENT

In July 2006, the Hospital entered into a loan agreement with Farmers State Bank in the amount of \$172,000 for the purpose of financing a portion of the cost of purchasing a CT scanner.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HAWARDEN, IOWA
Required Supplementary Information – Budgetary Reporting
June 30, 2006

Iowa Budget law requires the adoption of legal budgets for expenditures (expenses) on a program basis. The programs are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Although the budget document presents program expenditures (expenses) by fund, the legal level of control is at the aggregated program level, not at the fund level. For example, all budget categories of a particular fund may be exceeded so long as total budgeted program expenditures (expenses) are not exceeded on a "city-wide" basis. Program expenditures (expenses) required to be budgeted include expenditures for the general fund, special revenue funds, debt service fund, capital project funds, permanent fund, and proprietary fund types (including internal service). Legally adopted budgets may be prepared on a cash basis or on a basis consistent with U.S. generally accepted accounting principles.

The City follows these procedures in establishing the budget data reflected in the financial statement.

1. At least six weeks prior to March 15, the City Clerk submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to March 15, the budget is legally enacted through passage of a resolution.
4. Amendments to the budget are considered and reviewed throughout the fiscal year. Amendments are subject to departmental review and by justification to the City Clerk. The budget is formally amended by City Council resolution. Public hearings on budget amendments are conducted if the amendment is at the program level. The original budget plus subsequent amendments constitute the annual appropriated budget. There are no other appropriations of budget that occur. During the year, the budget was amended to increase expenditures as follows:

	Original Budget	5/24/06 Amendment	Amended Budget
Public Safety	\$ 441,332	\$ 55,300	\$ 496,632
Public Works	292,550	-	292,550
Health and Social Services	180,000	37,000	217,000
Culture and Recreation	398,550	-	398,550
Community and Economic Development	639,500	208,000	847,500
General Government	407,500	10,000	417,500
Debt Service	260,722	-	260,722
Capital Projects	646,500	(2,500)	644,000
Business Type Activities	9,795,970	330,000	10,125,970
Transfer Out	1,034,872	81,000	1,115,872

CITY OF HAWARDEN, IOWA
Required Supplementary Information – Budgetary Reporting
June 30, 2006

5. Legally adopted budgets are prepared on a program basis for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Project Funds and the Permanent Fund on a basis consistent with generally accepted accounting principles and reflect the annual appropriation resolutions adopted by the City Council.
6. Unexpended appropriations lapse at the end of each fiscal year.

Aggregation of Program Expenditures/Expenses for Governmental, Proprietary and Permanent Fund Types is shown on the next page to demonstrate legal compliance with budget:

CITY OF HAWARDEN, IOWA
Required Supplementary Information – Budgetary Reporting
June 30, 2006

	Governmental Fund Types	Proprietary Fund Types
Revenues:		
Taxes.....	\$ 833,149	-
Licenses and Permits	20,284	-
Intergovernmental	911,743	-
Charges for Services.....	232,427	\$ 5,293,818
Fines and Forfeits.....	16,051	-
Interest on Investments.....	65,107	217,383
Revenue from Use of Property.....	27,432	35,500
Special Assessments	3,669	-
Contributions	67,506	-
Reimbursements.....	56,269	-
Miscellaneous.....	3,506	51,580
Total Revenue	<u>2,237,143</u>	<u>5,598,281</u>
Expenditures:		
Public Safety	485,268	-
Public Works	287,849	-
Health and Social Services	223,450	-
Culture and Recreation	368,866	-
Community and Economic Development.....	445,763	-
General Government.....	109,653	-
Debt Service	186,960	-
Capital Projects	546,373	-
Business Type Activities	-	5,616,595
Total Expenditures/Expenses.....	<u>2,654,182</u>	<u>5,616,595</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(417,039)</u>	<u>(18,314)</u>
Other Financing Sources (Uses):		
Transfers from Other Funds	969,473	-
Transfers to Other Funds	(582,473)	(387,000)
Proceeds of Capital Asset Sales	-	35,500
Total Other Financing Sources (Uses).....	<u>387,000</u>	<u>(351,500)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures/Expenses and Other (Uses)	<u>(30,039)</u>	<u>(369,814)</u>
Fund Balance/Retained Earnings at Beginning of Year .	875,694	6,541,796
Prior Period Adjustment	(50,000)	50,000
Fund Balance/Retained Earnings at Beginning of Year, as restated.....	<u>825,694</u>	<u>6,591,796</u>
Fund Balance/Retained Earnings at End of Year	<u>\$ 795,655</u>	<u>\$ 6,221,982</u>

CITY OF HAWARDEN, IOWA
Required Supplementary Information – Budgetary Reporting
June 30, 2006

Primary Government Total	Hawarden Community Hospital	Reporting Entity Total	Adopted Budget	Variance Favorable (Unfavorable)
\$ 833,149	-	\$ 833,149	\$ 1,005,543	\$ (172,394)
20,284	-	20,284	19,900	384
911,743	\$ 223,450	1,135,193	861,827	273,366
5,526,245	4,381,497	9,907,742	11,176,522	(1,268,780)
16,051	-	16,051	-	16,051
282,490	13,142	295,632	42,649	252,983
62,932	-	62,932	-	62,932
3,669	-	3,669	3,600	69
67,506	60,562	128,068	-	128,068
56,269	-	56,269	-	56,269
55,086	-	55,086	77,500	(22,414)
<u>7,835,424</u>	<u>4,678,651</u>	<u>12,514,075</u>	<u>13,187,541</u>	<u>(673,466)</u>
485,268	-	485,268	496,632	11,364
287,849	-	287,849	292,550	4,701
223,450	-	223,450	217,000	(6,450)
368,866	-	368,866	398,550	29,684
445,763	-	445,763	847,500	401,737
109,653	-	109,653	417,500	307,847
186,960	-	186,960	260,722	73,762
546,373	-	546,373	644,000	97,627
5,616,595	4,390,312	10,006,907	10,125,970	119,063
<u>8,270,777</u>	<u>4,390,312</u>	<u>12,661,089</u>	<u>13,700,424</u>	<u>1,039,335</u>
<u>(435,353)</u>	<u>288,339</u>	<u>(147,014)</u>	<u>(512,883)</u>	<u>(1,712,801)</u>
969,473	-	969,473	1,115,872	146,399
(969,473)	-	(969,473)	(1,115,872)	(146,399)
35,500	-	35,500	70,000	34,500
<u>35,500</u>	<u>-</u>	<u>35,500</u>	<u>70,000</u>	<u>34,500</u>
<u>(399,853)</u>	<u>288,339</u>	<u>(111,514)</u>	<u>(442,883)</u>	<u>(1,678,301)</u>
7,417,490	1,769,220	9,186,710	9,186,710	-
-	-	-	-	-
<u>7,417,490</u>	<u>1,769,220</u>	<u>9,186,710</u>	<u>9,186,710</u>	<u>-</u>
<u>\$ 7,017,637</u>	<u>\$ 2,057,559</u>	<u>\$ 9,075,196</u>	<u>\$ 8,743,827</u>	<u>\$ (1,678,301)</u>

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OTHER SUPPLEMENTARY INFORMATION

CITY OF HAWARDEN, IOWA
COMBINING BALANCE SHEET
Governmental Nonmajor Funds
JUNE 30, 2006

	Special Revenue Funds			Capital Projects		
	Road Use Tax	Employee Benefit Levy	Local Option Sales Tax	Capital Improve- ment	Capital Project Community Center Project	Heart of Hawarden Project
Assets						
Cash and Pooled Investments	\$ 8,432	\$ 3,563	\$ -	\$ -	\$ -	\$ 66,723
Investments	-	-	-	-	-	-
Receivables (Net, where applicable, of allowance for uncollectibles)						
Accounts	-	-	-	-	345	-
Taxes	-	2,941	-	-	-	-
Subsequent Year Taxes	-	121,215	-	-	-	-
Accrued Interest	-	-	-	-	-	-
Pledges Receivable	-	-	-	-	-	35,000
Due from Other Governmental Agencies	16,157	-	35,105	14,996	-	-
Total Assets	24,589	127,719	35,105	14,996	345	101,723
Liabilities and Fund Balances						
Liabilities:						
Accounts Payable	-	-	35,105	-	-	41,268
Due to Other Funds	-	-	-	3,254	-	-
Deferred Revenue - Subsequent Year Taxes	-	121,215	-	-	-	20,000
Total Liabilities	-	121,215	35,105	3,254	-	61,268
Fund Balances:						
Reserved for:						
Library Endowment	-	-	-	-	-	-
Unreserved	24,589	6,504	-	11,742	345	40,455
Total Fund Balances	24,589	6,504	-	11,742	345	40,455
Total Liabilities and Equity	\$ 24,589	\$ 127,719	\$ 35,105	\$ 14,996	\$ 345	\$ 101,723

Capital Projects						Permanent Fund	Total
Public Works Building Replacement	Capital Facilities Fund	Mapping	Contingency Fund	Public Works Shop	Low-Mod Income Project	Marie Gregg/Vipond Trust	Governmental Nonmajor Funds
\$ 77,995	\$ 34,711	\$ 3,149	\$ 32,430	\$ 3,880	\$ 24,571	\$ 28,791	\$ 284,245
-	-	60,000	-	-	-	135,934	195,934
-	-	-	-	-	-	-	345
-	-	-	-	-	-	-	2,941
-	-	-	-	-	-	-	121,215
-	-	780	-	-	-	264	1,044
-	-	-	-	-	-	-	35,000
-	-	-	-	-	11,940	-	78,198
77,995	34,711	63,929	32,430	3,880	36,511	164,989	718,922
-	-	-	-	1,311	-	-	77,684
-	-	-	-	-	-	-	3,254
-	-	-	-	-	-	-	141,215
-	-	-	-	1,311	-	-	222,153
-	-	-	-	-	-	164,989	164,989
77,995	34,711	63,929	32,430	2,569	36,511	-	331,780
77,995	34,711	63,929	32,430	2,569	36,511	164,989	496,769
\$ 77,995	\$ 34,711	\$ 63,929	\$ 32,430	\$ 3,880	\$ 36,511	\$ 164,989	\$ 718,922

CITY OF HAWARDEN, IOWA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Nonmajor Funds
JUNE 30, 2006

	Special Revenue Funds			Capital Projects		
	Road Use Tax	Employee Benefit Levy	Local Option Sales Tax	Capital Improve- ment	Capital Project Community Center Project	Heart of Hawarden Project
Revenue:						
Taxes	\$ -	\$ 111,656	\$ -	\$ -	\$ -	\$ -
Intergovernmental Revenue	207,293	-	223,450	17,946	-	310,000
Contributions	-	-	-	-	-	65,350
Refunds/Reimbursements	-	-	-	7,306	-	-
Interest	-	-	-	1,949	-	3,506
Miscellaneous	1,803	-	-	-	-	-
Total Revenue	209,096	111,656	223,450	27,201	-	378,856
Expenditures:						
Public Safety	-	21,582	-	-	-	-
Public Works	32,000	-	-	-	-	-
Health and Social Services	-	-	223,450	-	-	-
Culture and Recreation	-	-	-	-	-	-
Community and Economic Development	-	-	-	-	-	-
Capital Projects	-	-	-	56,513	10,954	276,987
Total Expenditures	32,000	21,582	223,450	56,513	10,954	276,987
Excess (deficiency) of revenues over expenditures	177,096	90,074	-	(29,312)	(10,954)	101,869
Other financing sources (uses):						
Transfers In	-	-	-	-	125,948	90,000
Transfers Out	(220,000)	(89,395)	-	(25,000)	-	-
Total other financing sources (uses)	(220,000)	(89,395)	-	(25,000)	125,948	90,000
Net Change in Fund Balance	(42,904)	679	-	(54,312)	114,994	191,869
Fund balances - beginning of year	67,493	5,825	-	66,054	(114,649)	(151,414)
Fund balances - end of year	\$ 24,589	\$ 6,504	\$ -	\$ 11,742	\$ 345	\$ 40,455

Capital Projects						Permanent Fund	Total
Public Works Building Replacement	Capital Facilities Fund	Mapping	Contingency Fund Project	Public Works Shop	Low-Mod Income Project	Marie Gregg/Vipond Trust	Governmental Nonmajor Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 111,656
-	-	-	-	-	121,370	-	880,059
-	-	-	-	-	-	1,552	66,902
-	-	-	-	-	-	-	7,306
2,482	1,154	2,774	2,518	1,836	1,874	5,229	23,322
-	-	-	-	-	-	-	1,803
2,482	1,154	2,774	2,518	1,836	123,244	6,781	1,091,048
-	-	-	-	-	-	-	21,582
-	-	-	-	-	-	-	32,000
-	-	-	-	-	-	-	223,450
-	-	-	-	-	-	10,172	10,172
-	-	-	-	-	132,539	-	132,539
-	-	3,399	-	38,402	-	-	386,255
-	-	3,399	-	38,402	132,539	10,172	805,998
2,482	1,154	(625)	2,518	(36,566)	(9,295)	(3,391)	285,050
34,000	12,600	-	-	-	-	-	262,548
-	-	-	(75,948)	(50,000)	-	-	(460,343)
34,000	12,600	-	(75,948)	(50,000)	-	-	(197,795)
36,482	13,754	(625)	(73,430)	(86,566)	(9,295)	(3,391)	87,255
41,513	20,957	64,554	105,860	89,135	45,806	168,380	409,514
\$ 77,995	\$ 34,711	\$ 63,929	\$ 32,430	\$ 2,569	\$ 36,511	\$ 164,989	\$ 496,769

CITY OF HAWARDEN, IOWA
COMBINING STATEMENT OF NET ASSETS
Fiduciary Funds
JUNE 30, 2006

	Pension Trust		Agency Funds		
	Fund				
	Police	Payroll	Flex	Community	
	Retirement Fund	Clearing	Spending	Projects	Total
ASSETS					
Cash and Cash Equivalents	\$ 15	\$ 7,820	\$ 3,187	\$ 9,437	\$ 20,459
Accounts Receivable	-	-	-	2,500	2,500
Total Assets	<u>15</u>	<u>7,820</u>	<u>3,187</u>	<u>11,937</u>	<u>22,959</u>
LIABILITIES					
Accounts Payable	341	-	-	5,000	5,341
Due to Other Governments	-	7,820	3,187	6,937	17,944
Total Liabilities	<u>341</u>	<u>7,820</u>	<u>3,187</u>	<u>11,937</u>	<u>23,285</u>
NET ASSETS					
Unrestricted	(326)	-	-	-	(326)
Total Net Assets	<u>\$ (326)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (326)</u>

CITY OF HAWARDEN, IOWA
Combining Statement of Changes in Assets and Liabilities
Agency Funds
Year Ended June 30, 2006

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<u>PAYROLL CLEARING</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 20,189	\$ 1,517,398	\$ 1,529,767	\$ 7,820
Total Assets	20,189	1,517,398	1,529,767	7,820
<u>Liabilities</u>				
Due to Other Governments	20,189	1,517,398	1,529,767	7,820
Total Liabilities	20,189	1,517,398	1,529,767	7,820
<u>FLEX SPENDING</u>				
<u>Assets</u>				
Cash and Cash Equivalents	2,958	25,814	25,585	3,187
Total Assets	2,958	25,814	25,585	3,187
<u>Liabilities</u>				
Due to Other Governments	2,958	25,814	25,585	3,187
Total Liabilities	2,958	25,814	25,585	3,187
<u>COMMUNITY PROJECTS FUND</u>				
<u>Assets</u>				
Cash and Cash Equivalents	14,990	15,883	21,436	9,437
Accounts Receivable	5,000	-	2,500	2,500
Total Assets	19,990	15,883	23,936	11,937
<u>Liabilities</u>				
Accounts Payable	5,000	-	-	5,000
Due to Other Governments	14,990	15,883	23,936	6,937
Total Liabilities	19,990	15,883	23,936	11,937
<u>ALL AGENCY FUNDS TOTAL</u>				
<u>Assets</u>				
Cash and Cash Equivalents	38,137	1,559,095	1,576,788	20,444
Accounts Receivable	5,000	-	2,500	2,500
Total Assets	43,137	1,559,095	1,579,288	22,944
<u>Liabilities</u>				
Accounts Payable	5,000	-	-	5,000
Due to Other Governments	38,137	1,559,095	1,579,288	17,944
Total Liabilities	\$ 43,137	\$ 1,559,095	\$ 1,579,288	\$ 22,944

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CITY OF HAWARDEN
Schedule of Findings
Year Ended June 30, 2006

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

REPORTABLE CONDITIONS AND INSTANCES OF NON-COMPLIANCE:

No matters were reported.
There were no prior year audit findings.

Part III: Other Findings Related to Required Statutory Reporting

III-A-06 Certified Budget – Expenditures for the year ended June 30, 2006 exceeded amounts budgeted in the Health and Social Services function.

Recommendation – The budget should be amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – Future budgets will be amended before expenditures are made as appropriate.

Conclusion – Response accepted.

III-B-06 Questionable Expenses – We noted no expenditures that we believe may constitute unlawful expenditures from public funds as defined in an Attorney General's opinion dated April 25, 1979.

III-C-06 Travel Expenses – No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF HAWARDEN
Schedule of Findings
Year Ended June 30, 2006

III-D-06 Business Transactions – The business transactions between the City and City officials and/or employees were noted during the year ended June 30, 2006.

<u>Name, Title and Business Connection</u>	<u>Transaction/Description</u>	<u>Amount</u>
Dennis Anderson, Spouse of Council-Person and owner of Anderson Construction	Various concrete projects	\$59,132
Willie Garret, Police officer and owner of A & W Lawn Care	Lawn treatments/landscaping	\$18,369
George Jacobs, Councilperson and Owner of Central Catering	Various catered meals	\$ 1,008

The transactions with Willie Garret occurred because there is no other source for lawn chemical applications in Hawarden and because he performed the different landscaping work related to the new city hall building. The total amount represents work done for several departments (e.g. Library, City) with different governing boards and appears reasonable. Each project done by Anderson Construction was awarded through the competitive bid process and appears proper. The transactions with Central Catering were immaterial in nature and appear appropriate.

III-E-06 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions.

III-F-06 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

III-G-06 Revenue Bonds – No violations of revenue bond resolutions were noted.

III-H-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Members of the City Council
City of Hawarden, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the CITY OF HAWARDEN, IOWA as of and for the year ended June 30, 2006, which collectively comprise the City of Hawarden, Iowa's basic financial statements and have issued our report thereon dated August 25, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit the financial statements of the Hawarden Municipal Hospital, which statements reflect total assets of \$3,042,081 and total operating revenues of \$4,381,497 for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion insofar as it relates to the amounts included for the Hawarden Municipal Hospital, is based solely on the report of the other auditors.

Internal Control Over Financial Reporting:

In planning and performing our audit, we considered the City of Hawarden, Iowa's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the City of Hawarden, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved.

This report, a public record by law, is intended solely for the information and use of the City Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit.

Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Williams & Company, P.C.
Certified Public Accountants

August 25, 2006